

Public Wholesale Water Supply District No. 4

Audit Report

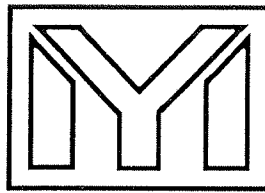
September 30, 2012

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 4

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SEPTEMBER 30, 2012

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YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
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American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Wholesale Water Supply District No. 4
Cherryvale, Kansas

We have audited the accompanying financial statements of Public Wholesale Water Supply District No. 4 (the District), as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2012, and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the management's discussion and analysis supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Yerkes & Michels, CPA, LLC

November 26, 2012

Statement of Net Assets

September 30, 2012

Assets

Current Assets:

Cash and Cash Equivalents (Notes 1 & 3)	\$ 399,992
Certificates of Deposits (Notes 1 & 3)	300,000
Accounts Receivable (Notes 1 & 9)	118,083
Interest Receivable	2,926
Prepaid Insurance	<u>22,210</u>
Total Current Assets	<u>843,211</u>

Property, Plant, and Equipment	7,739,658
Less Allowance for Accumulated Depreciation	<u>(3,693,254)</u>
Net Property, Plant and Equipment (Notes 4)	<u>4,046,404</u>

Other Assets

Loan Issuance Costs-Net (Note 6)	31,483
Loan Reserve Accounts	89,711
Electric Cooperative (Note 1)	<u>142,973</u>
Total Other Assets	<u>264,167</u>

Total Assets	<u><u>\$ 5,153,782</u></u>
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Liabilities

Current Liabilities:

Current Portion of Long-Term Debt (Note 5)	\$ 94,280
Trade Accounts Payable (Note 1)	53,118
Accrued Interest and Service Fees Payable	5,070
Wages Payable (Note 8)	8,461
Payroll Expenses Payable	<u>5,139</u>
Total Current Liabilities	<u>166,068</u>

Long-Term Liabilities

Long-Term Debt (Notes 5)	<u>1,022,426</u>
Total Long-Term Liabilities	<u>1,022,426</u>

Total Liabilities	<u>1,188,494</u>
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Net Assets (Note 1)

Invested in Capital Assets, Net of Related Debt	2,929,698
Unrestricted	<u>1,035,590</u>
Total Net Assets	<u>3,965,288</u>

Total Liabilities and Net Assets	<u><u>\$ 5,153,782</u></u>
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The notes to the financial statements are an integral part of these statements.

Statements of Activities and Changes in Net Assets

For the Year Ended September 30, 2012

Operating Revenues:

Water Sales (Note 9)	\$ 1,269,635
Other Income	25,595
Total Operating Revenues	<u>1,295,230</u>

Operating Expenses:

Salaries and Wages (Note 8)	224,465
Water Purchases	128,360
Depreciation (Note 4)	246,139
Amortization (Note 6)	7,089
Repairs	57,462
Chemicals	209,284
Insurance and Bonds	28,406
Utilities and Telephone	117,319
Travel and Meetings	15,976
Supplies	14,668
Retirement Expense (Note 7)	16,881
Professional Fees	12,007
Office Expense	3,883
Payroll Taxes	17,665
Dues, Licenses & Permits	1,530
Miscellaneous	754
Total Operating Expense	<u>1,101,888</u>

Operating Income	193,342
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Nonoperating Revenues (Expense)

Interest Income	5,547
Loan Fees	(4,576)
Interest Expense	<u>(42,906)</u>
Total Nonoperating Revenues (Expense)	<u>(41,935)</u>

Changes in Net Assets	151,407
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Net Assets:

Beginning of Year	<u>3,813,881</u>
End of Year	<u>\$ 3,965,288</u>

The notes to the financial statements are an integral part of these statements.

Public Wholesale Water Supply District No. 4

Statement of Cash Flows

For the Year Ended September 30, 2012

Cash Flows from Operating Activities

Cash Received from Customers	\$ 1,297,646
Cash Paid to Vendors	(634,502)
Cash Paid to Employees	(227,932)
Net Cash Provided (Used) by Operating Activities	<u>\$ 435,212</u>

Cash Flows from Capital Financing Activities

Transfer from Loan Reserves	\$ 112,416
Proceeds from Refinance	\$ 415,000
Disposition of Capital Assets	(41,058)
Principal Paid on Capital Debt	(659,392)
Interest Paid on Capital Debt	(46,499)
Loan Issuance Costs	(21,857)
Loan Service Fees	(4,576)
Net Cash Provided (Used) by Capital Financing Activities	<u>\$ (245,966)</u>

Cash Flows from Investing Activities

Payments for Capital of Electric Cooperative	\$ (6,176)
Interest on Investments	4,982
Net Cash Provided (Used) by investing activities	<u>\$ (1,194)</u>

Net increase (decrease) in cash	\$ 188,052
Cash - Beginning of the Year	211,940
Cash - End of the Year	<u><u>\$ 399,992</u></u>

Reconciliation of Net Operating Revenues to

Net Cash Provided by Operating Revenues:

Net Operating Revenue	\$ 193,342
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Adjustments to Reconcile Net Operating Revenue to

Net Cash provided by Operating Activities:

Depreciation and Amortization Expense	\$ 253,228
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Changes in Assets and Liabilities:

Sources (Uses) of Cash

Receivables, Net	\$ 2,416
Prepaid Insurance	(4,471)
Accounts Payable	(5,836)
Wages Payable	(3,467)

Net Cash Provided By Operating Activities	<u><u>\$ 435,212</u></u>
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The notes to the financial statements are an integral part of these statements.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Note 1 Summary of Significant Accounting Policies

1A. Financial Reporting Entity

Public Wholesale Water Supply District No. 4 (The District) is governed by an appointed Board of Directors. Each of the thirteen (13) member districts is represented by a Board member. The District's purpose is to supply water to cities and other water districts from the Big Hill Reservoir.

1B. Fund Financial Statements

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual net assets or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

A legal operating budget is not required for the District. Spending in the District's fund is controlled by the use of internal spending limits established by the governing body.

The District financial statement is comprised of a proprietary fund, more specifically an enterprise fund, which is used to account for activities in which a fee is charged to an external user for goods or services.

1C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as the District is considered a special purpose entity, engaged only in business type activities. The only fund the District has is a proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for water sales to customers. Operating expenses for the enterprise fund include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first; then unrestricted resources as they are needed.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Note 1 Summary of Significant Accounting Policies (cont'd)

1D. Cash and Cash Equivalents

Cash equivalents for the purpose of the statements of cash flows are highly liquid investments with a maturity of three months or less at the acquisition date. Cash in reserve accounts is not included as cash or cash equivalents, due to restricted access based on loan requirements.

1E. Receivables and Payables

The District records revenues when collected during the year with an adjustment at the year end to record accounts receivable as of September 30. The District reviews the outstanding receivables on a regular basis for collectability. An allowance for doubtful accounts was considered unnecessary at year end.

Likewise, the District records expenses when paid during the year with an adjustment at the year end to record accounts payable as of September 30.

1F. Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

1G. Net Assets

Net Assets comprise the various net earnings from operating income, nonoperating revenues and expenses, capital contributions and special items. Net Assets are classified in the follow three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end that portion of the debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Note 1 Summary of Significant Accounting Policies (cont'd)

1G. Net Assets cont'd

Restricted – This component of net assets consists of external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The District had no restricted net assets at September 30, 2012.

Unrestricted - This component of net assets consist of net assets not restricted for any project or other purpose.

1H. Electric Cooperative

The electric cooperative asset is stated at the District's share of patrons' equities allocated, net of distributions received.

1I. Income Taxes

The District is a special purpose quasi-municipality for income tax purposes and is, thus, exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been reported.

Note 2 – Stewardship, Compliance and Accountability Compliance with Finance-Related Legal and Contractual Matters

The District's loan covenants require that a separate principal and interest bank account be established and pro-rata amounts necessary to pay the next scheduled debt service payments be transferred monthly into this account. Payments are then made from the account. The District has yet to establish this separate account.

The District's loan requirements for Revenue Bonds Series F 2012 require that a loan reserve account be established for 10% of the total proceeds of the loan, this would be \$41,500. The District has an established loan reserve account however they have yet to increase this account by the required amount.

Management is not aware of any other statutory, finance related or contractual violation applicable to the year ended September 30, 2012.

Note 3 Deposits and Investments

K.S.A 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A 9-1402 requires banks to pledge securities for

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Note 3 Deposits and Investments (cont'd)

deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit – State Statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk, Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under joint custody receipt issued by a bank with the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at September 30, 2012.

At year-end the carrying amount of the District's deposits, was \$ 789,703.15. The bank balance was \$ 822,854.64. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by four banks, which did not result in a concentration of credit risk. Of the bank balance, all was covered by the federal depository insurance.

Custodial Credit Risk, Investments – For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District had no investments at September 30, 2012.

Note 4 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (i.e. water distribution system), are stated at cost. The District defines capital assets, as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Note 4 Capital Assets (cont'd)

Depreciation and Amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

Water Distribution System	40 years
Storage Building	20 years
Vehicle.....	5 years
Office and other Equipment	5-15 years

A summary of property, plant and equipment is as follows for the year ended September 30, 2012:

	Balance at 10/1/11	Acquisitions	Dispositions	Balance at 9/30/12
Land and Land Improvements	\$ 76,477	\$ -	\$ -	\$ 76,477
Water Distribution System	6,154,082	50,069	9,011	6,195,140
Building	888,260	8,496	8,496	888,260
Vehicle	58,901	-	-	58,901
Office and Other Equipment	512,149	-	-	512,149
Construction in Progress	8,731	-	-	8,731
	<u>7,698,600</u>	<u>58,565</u>	<u>17,507</u>	<u>7,739,658</u>
Less Accumulated Depreciation				<u>(3,693,254)</u>
				<u>\$ 4,046,404</u>

Note 5 Long-Term Debt

See pages 12 and 13 for long term debt information. Also see Note 2, regarding compliance with loan covenants.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Note 6 Loan Issuance Costs - Net

Loan Issuance Costs are amortized using the straight-line method over the life of the respective loans. Summary of loan issuance costs at September 30, 2012 is as follows:

<u>Loan Number</u>	<u>Date</u>	<u>Duration</u>	<u>Costs</u>	<u>Accumulated Amortization</u>	<u>Balance</u>
2505	2/1/10	20 Years	\$ 11,213.93	\$ 747.60	\$ 10,466.33
Series F 2012	7/1/12	6.5 Years	\$ 21,858.75	\$ 840.72	\$ 21,018.03
			<u>\$ 33,072.68</u>	<u>\$ 1,588.32</u>	<u>\$ 31,484.36</u>

Note 7 Defined Benefit Pension Plan

Plan description - The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to KPERS (611 Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

Funding policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to provisions of section 414(h) of the Internal Revenue Code. State law provides the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for October through December 2011 was 7.675%, and for January through September 2012 it was 8.34%. The employer contributions to KPERS for the years ended September 30, 2012, 2011, and 2010 are 16,880.58, \$16,281, and \$12,209, respectively, equal to the required contributions for each year as set forth by the legislature.

Note 8 Compensated Absences

Compensated absences consist of vacation leave and sick leave earned by employees based on services already rendered.

Public Wholesale Water Supply District No. 4

Notes to the Financial Statements

September 30, 2012

Employees may accumulate up to a maximum 30 days of vacation. Any unused vacation hours in excess of the maximum amount at the employees' anniversary date are forfeited. The District's policy is to pay employees for unused accumulated vacation hours at termination or retirement. Vacation is earned at a rate of ten (10) days per

Note 8 Compensated Absences (cont'd)

year after the employee's first year of employment and fifteen (15) days per year after the employee's tenth year of employment. The liability for the current amount of accumulated vacation is \$8,461 at September 30, 2012 and is included in the current liability-wages payable.

Employees may accumulate up to a maximum of 60 days of sick leave. Any unused sick leave over the maximum amount at the employee's anniversary date is forfeited. Employees earn one sick day per month of continuous employment up to a maximum of 12 days per year. Although the District's possible liability at September 30, 2012 is material to the financial statements, it has not been recorded, as it is not the District's policy to pay unused sick leave. The District's potential liability for unused sick leave at September 30, 2012 is approximately \$25,000.

Note 9 Major Customers

For the year ending September 30, 2012, the District had five (5) major customers who accounted for 72% of total sales and 70% of accounts receivable, however each customer of the District is locked into a contract for a term of 40 years.

Note 10 Subsequent Event

The District is in the process of securing funding and land for the construction of a new water tower in the City of Altamont area.

PUBLIC WHOLESAL WATER SUPPLY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 5 - LONG TERM DEBT

Changes in long term liabilities for the Water Supply District for the year ended September 30, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid	Loan Service Fees
Project Loans											
KDHE Loan # 2135	4.090%	8/1/1998	1,124,153.90	2/1/2019	526,381.87	-	526,381.87	(526,381.87)	-	17,985.60	1,683.15
Series F 2012	.6% - 2%	6/29/2012	415,000.00	2/1/2019	-	415,000.00	-	415,000.00	415,000.00	-	-
KDHE Loan # 2505	3.810%	8/1/2009	897,114.26	8/1/2029	834,716.35	-	133,010.29	(133,010.29)	701,706.06	28,598.34	2,892.89
Total Bond Indebtedness / Long-Term Debt					1,361,098.22	\$ 415,000	659,392.16	(244,392.16)	1,116,706.06	\$ 46,583.94	\$ 4,576.04
										Total Payments Made FYE 9/30/12	
										\$710,552.14	

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 4

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2012

NOTE 5 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

Principal:	<u>9/30/2013</u>	<u>9/30/2014</u>	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018 - 9/30/2022</u>	<u>9/30/2023 - 9/30/2027</u>	<u>9/30/28 - 9/30/2029</u>	<u>TOTAL</u>
Series F Bonds 2012	\$ 60,000.00	\$ 65,000.00	\$ 65,000.00	\$ 65,000.00	\$ 65,000.00	\$ 95,000.00			\$ 415,000.00
KDHE Loan # 2505	29,745.70	31,170.11	32,369.00	33,614.00	34,906.89	195,736.85	236,389.14	107,774.37	701,706.06
Total Principal	<u>\$ 89,745.70</u>	<u>\$ 96,170.11</u>	<u>\$ 97,369.00</u>	<u>\$ 98,614.00</u>	<u>\$ 99,906.89</u>	<u>\$ 290,736.85</u>	<u>\$ 236,389.14</u>	<u>\$ 107,774.37</u>	<u>\$ 1,116,706.06</u>

Interest:

Series F Bonds 2012	\$ 5,153.34	\$ 4,390.00	\$ 3,925.00	\$ 3,210.00	\$ 2,420.00	\$ 1,590.00			\$ 20,688.34
KDHE Loan # 2505	24,276.31	22,982.75	21,893.99	20,763.36	19,589.24	78,691.52	41,773.70	4,705.22	234,676.09
Total Interest	<u>\$ 29,429.65</u>	<u>\$ 27,372.75</u>	<u>\$ 25,818.99</u>	<u>\$ 23,973.36</u>	<u>\$ 22,009.24</u>	<u>\$ 80,281.52</u>	<u>\$ 41,773.70</u>	<u>\$ 4,705.22</u>	<u>\$ 255,364.43</u>
Total Principal and Interest	<u>119,175.35</u>	<u>123,542.86</u>	<u>123,187.99</u>	<u>122,587.36</u>	<u>121,916.13</u>	<u>371,018.37</u>	<u>278,162.84</u>	<u>112,479.59</u>	<u>1,372,070.49</u>